The Kroger Co. 1971 annual report

The Kroger Co. 1971 Annual Report
The Kroger Co., 1014 Vine Street, Cincinnati, Ohio 45201

Highlights

	1971	1970	Change
SALES	$3,707,918,052	$3,735,774,014	— .7%
EARNINGS BEFORE EXTRAORDINARY LOSS	$ 36,269,080	$ 39,768,913	— 8.8%
EXTRAORDINARY LOSS	$ 4,056,000		
NET EARNINGS	$ 32,213,080	$ 39,768,913	
DIVIDENDS PAID	$ 17,369,577	$ 17,192,082	
SHAREOWNERS' EQUITY	$ 351,890,811	$ 332,767,482	+ 5.7%
PER COMMON SHARE			
EARNINGS BEFORE EXTRAORDINARY LOSS	$ 2.71	$ 3.00	— 9.7%
EXTRAORDINARY LOSS	$ .30		
NET EARNINGS	$ 2.41	$ 3.00	
DIVIDENDS	$ 1.30	$ 1.30	
SHAREOWNERS' EQUITY	$ 26.19	$25.07	+ 4.5%

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Directors and Officers.....inside back cover

The annual meeting of shareholders will be held at the office of the company, 1014 Vine Street, Cincinnati, Ohio on April 13, 1972 at 10 a.m.

To our fellow shareowners:

Kroger sales and earnings for 1971 did not measure up to our plans. Sales for 52 weeks were $3.7 billion, down slightly less than 1% from 53-week 1970 sales. After adjusting for the 53rd week and making allowance for the discontinuance of operations in Chicago, Minnesota, and Wisconsin during the past two years, sales were ahead by 5½% on a comparable basis.

Earnings per share before extraordinary item were $2.71, down 9.7% from the $3.00 per share record earnings of 1970. The extraordinary loss of 30¢ per share, reflecting the cost of terminating our Wisconsin operations, reduced net earnings to $2.41 per share.

Food store operations started strong in 1971, but earnings were substantially depressed by the 23-day Cincinnati strike during the second quarter, the effects of which carried into the third quarter. The Wisconsin closing costs were being absorbed during the same part of the year. By year-end Cincinnati operations had recovered fully and the impact of the Wisconsin closing had been absorbed.

Drug store earnings in 1971 were down substantially from the 1970 record. Much of this was due to revitalized merchandising programs and additional promotional efforts undertaken early in 1971 to combat sluggish sales. Although the net result in 1971 was unfavorable, SupeRx earnings for the last quarter actually exceeded 1970 levels without the benefit of the extra week. The drug operations carry a strong momentum into the coming year.

The operating conditions we encountered in 1971 made it necessary for us to reduce expenses substantially. This we have done, putting us on a solid and acceptable basis for the coming year. As the year progressed, we also reduced capital expenditures to a level below our original plan, and began gearing up for our 1972 program.

Looking to 1972, we fully expect a good year. Our diversified strengths are enabling us to recover from the adverse developments of 1971. Despite the continuing higher cost of doing business, we intend to improve our sales, our productivity, and our profitability.

Our store plans are exciting. We will add over 2 million square feet in retail space during 1972. We're going after new sales aggressively with storing and merchandising strategies intended to deliver to our customers what they want to buy, where they want to buy it.

Our people faced several challenges last year. They had to make many adjustments, and we are proud of them for the diligent way in which they responded. As we implement our 1972 plans together, we are dedicated to the profitable growth of the company, now and in the future.

Sincerely,

James P. Herring

President and Chief Executive Officer

Robert A. Aders

Chairman of the Board

March 8, 1972

The supermarket world of the 1970's is keyed to the consumer. More than ever before.

This is a new kind of consumer, who wants all the traditional goals of cleanliness and quality and friendliness and service. But more. And better. This new consumer wants a broader array of products, more convenience in shopping, a store and products which match her rising expectations.

To serve this new kind of shopper, food stores have a new spirit. An imaginative, forward-looking spirit. A good spirit. The Kroger spirit.

Color, rich and vibrant. Earth tones of golden and bittersweet and mossy green and brick red. . .

Scents. Sizzling chickens and ribs and ham on a spit.

A kid's wonderland. A bakery-full of strudel and big fat sugar cookies, plump doughnuts filled with jelly, shiny bagels. . .

Round cheeses covered with red wax. Deep gold and pale off-white cheeses with unfamiliar names, flavored with pepper or caraway. . .

Hearty German sausages, chopped liver, cole slaw, pickles in a huge jar, herring in sour cream. . .

The wonderland, old-fashioned kind of neighborhood stores that people reminisce nostalgically about?

No. It's a Kroger Food Store and it's as modern as tomorrow. But it's a new kind of superstore, some 95 of which are planned for 1972. (In addition, 119 stores in established locations will be completely remodeled and enlarged — placing, in effect, a new superstore within the expanded shell of an older store.)

The superstore of the 1970's is considerably larger than the food stores of the last two decades. Stores of 25,000 to 30,000 square feet in size are common, and many will be over 35,000 square feet.

Older, smaller stores will be closed as these new superstores are opened. But the net effect of the building program will be to add a total of approximately two million square feet of Kroger Food Store space in the next year alone.

Let's visit a Kroger superstore.

The new look starts when you're several blocks away. A graceful white column topped by a room-sized cube bearing Kroger's name towers 30 feet high to identify the store.

As you enter the parking lot, the store comes into view. Bigger. Longer. Often with a SupeRx drug store as an integrated neighbor. A sharply clean, crisp look. Soaring white arches with almost a Moorish look, silhouetted against smoke brick and blue sky.

But the important differences are inside.

Look around. The first impression is spaciousness and cleanliness. Then a warmer, more friendly look. Then it hits you. The colors. Pulsing and alive, accented with wooden beams. Even the cases have lost their pale pastel tones. Now they're richly-hued green and gold and bittersweet, sparked with walnut-vinyl trim. Bold colors transmit a sense of shopping excitement.

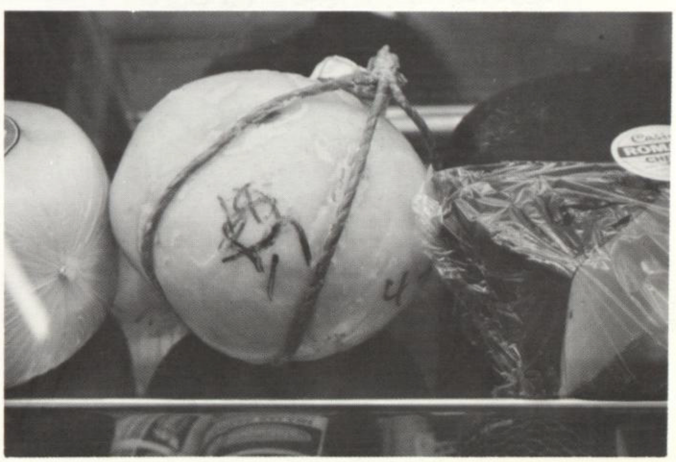
Follow a shopper through the store. Watch her pause at the special-service departments to enjoy the mouth-watering sights and scents. And to buy.

The Village Bakery is like a transplant from an English Tudor village with its beams and cross-hatched windows. And if the Viennese tortes, gesundheit kuchens and buttery dinner rolls look particularly good, there's a reason. They're made especially for the Village Bakery in local custom bakeries . . . and in a growing number of areas, in Kroger's own handcraft bakeries.

Next door in the delicatessen, a pleasant-faced clerk proffers a sample of salami and calls attention to the delicatessen's freshly-barbecued ribs, basted with a tangy sauce and broiled to a tantalizing brownness. She stands under a wood-shingle roof, accented with the golden glow of lighted panels. Her stock in trade is prepared foods ready to carry home . . . mounds of them, from the traditional cole slaw and baked beans to delicacies fit for company.

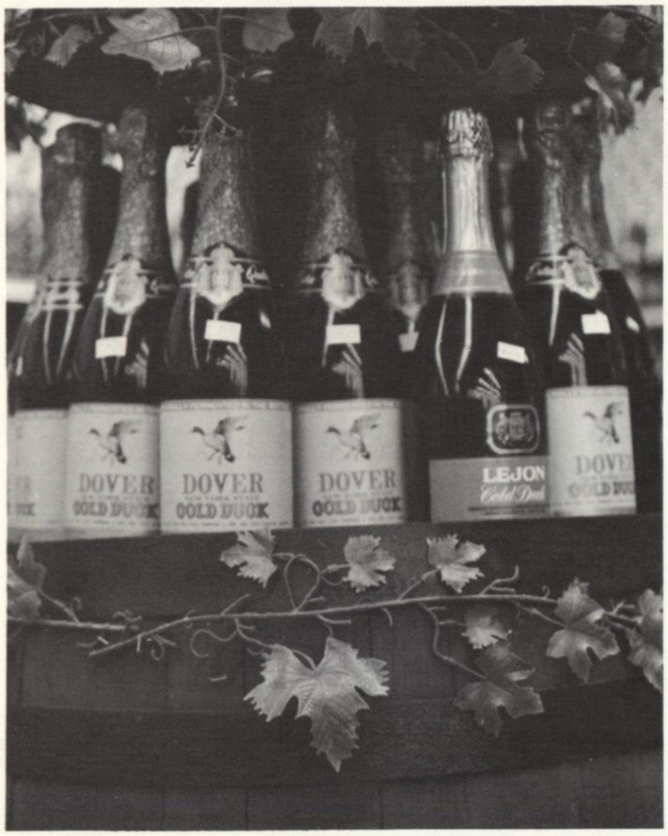
There are luncheon meats of every variety, tenderly pink-centered slices of roast beef, succulent sausages . . . all the mouth-watering intrigue of fine delicatessens everywhere. By the end of 1972, these delicatessens will be located in more than 200 Kroger Food Stores.

There's an old saying that "a dinner without cheese is like a kiss without a squeeze." Whatever the reason, Americans are eating more and more cheese each year. In 1971, per-capita consumption of cheese reached approximately 12 pounds, up from less than 8½ pounds just 10 years ago.



Kroger Food Stores continue to broaden the cheese assortment made available to shoppers. The quality control and marketing flexibility offered by the company's affiliation with a cooperative association of dairy farmers has helped Kroger expansion in the world of cheeses.

In addition, selected new stores will include a very special kind of cheese store, sort of a United Nations of the cheese world . . . the best from cheese-producing sections of the U. S. as well as unusual cheeses from around the world. As the friendly clerk in the red Bavarian jumper cuts and weighs your selection to order, she smiles as though she knows you'll enjoy it.



Wine, a natural companion to cheese and food, also is winning new shoppers. Wine sales (by cases) in the United States have increased steadily (3% increase in 1966; 13% in 1970). A further 62.7% increase is projected through 1975, according to the 1971 Wine Handbook.

Because wine is often associated with foods and fine eating, more and more shoppers are looking for it in their supermarket. To meet this shopper interest, Kroger Food Stores have redesigned wine departments into elegant corners — burgundy-tiled and wood-beamed. Some even resemble an arched wine cellar. Wine choices run the gamut from the most modestly-priced to the best of United States wines and special selections from European vineyards.

A NEW KIND OF CONSUMER

Consumers in the 1970's have special needs, just as real and just as important as quality products at the right prices, convenient parking, or friendly cashiers.

To this new kind of food store shopper, such information as open dating, unit pricing, nutrient content of foods are fully as important as the traditional values. They demand, as their right, to know as much as possible about the foods they eat.

Kroger is looking at all issues with an open mind and a willingness to learn. Shoppers throughout Krogerland can see evidence of the company's efforts in one or all of these areas.

By the end of 1972, some 1300 perishable and semi-perishable products packed under Kroger brand names will carry open "pull" dates, indicating when products are to be removed from sale to allow them to remain at high quality for an average usage period in the customer's home after purchase.

Information gained during a test of open dating, conducted during the fall of 1971 in cooperation with the U. S. Department of Agriculture, led Kroger to this major policy decision.

This research convinced Kroger that the use of an easily-read date (such as MAR 12) rather than coded dates which could be read only by Kroger employees serves the best interests both of shoppers and of the company.

Two years ago, Kroger was one of the first grocers in the country to test unit pricing (listing of the price per pound, pint, quart, 50 square feet or other unit measure, as well as the total weight and price).

The Toledo test, in cooperation with Cornell University and Consumer Research Institute, did not at that time indicate a strong consumer reaction to unit pricing. Now, however, Kroger has reassessed these findings, not in the traditional yardstick of usage but rather in light of the consumer's right to know and to be informed.

As a result, 155 Kroger Food Stores in two divisions (Houston and Columbus) early in 1972 introduced unit pricing, utilizing some modifications in the original plan to help reduce costs and improve accuracy. Each division area is using a different type label and method of printing information to determine which is most helpful to consumers.

Initial consumer response has been excellent.

Another important consumer concern is that of providing nutritional information on the package or label. The Food and Drug Administration of the U. S. Department of Health, Education and Welfare during 1972 will issue guidelines covering nutritional labeling — the listing on a package or label of the essential nutrients contained in a food, as well as the nutrient's importance as measured against the Recommended Dietary Allowances for adults, the calorie count and other information.

To assist the FDA in formulating its recommendations and to help discover which system of nutritional labeling is most meaningful and most likely to be used by shoppers, Kroger volunteered to become one of several food retailers in the United States to cooperate in a test of nutritional labeling in the early part of 1972.

With malnutrition and improper eating a rising health problem in the United States at all economic levels, education which can help shoppers eat more wisely becomes essential. Kroger is proud to be a part of this significant test.

NEW STORES OFFER WIDER VARIETY

Let's move along with our Kroger Food Store shopper.

Throughout the store, she notices changes. All are designed to meet her specific needs more directly . . . to assist her in her weekly shopping trip.

Everywhere there's a wider variety of products. In meats, in canned and frozen foods, in fresh fruits and vegetables... More sizes. More brands. New and unusual items. Instead of 6000 to 8000 items, she finds 12,000 to 14,000 items.

There's something for everyone.

New items take two forms. One is the broadening of the selections available in the regular line. Another is the addition of customized departments which meet special interests or needs of shoppers.

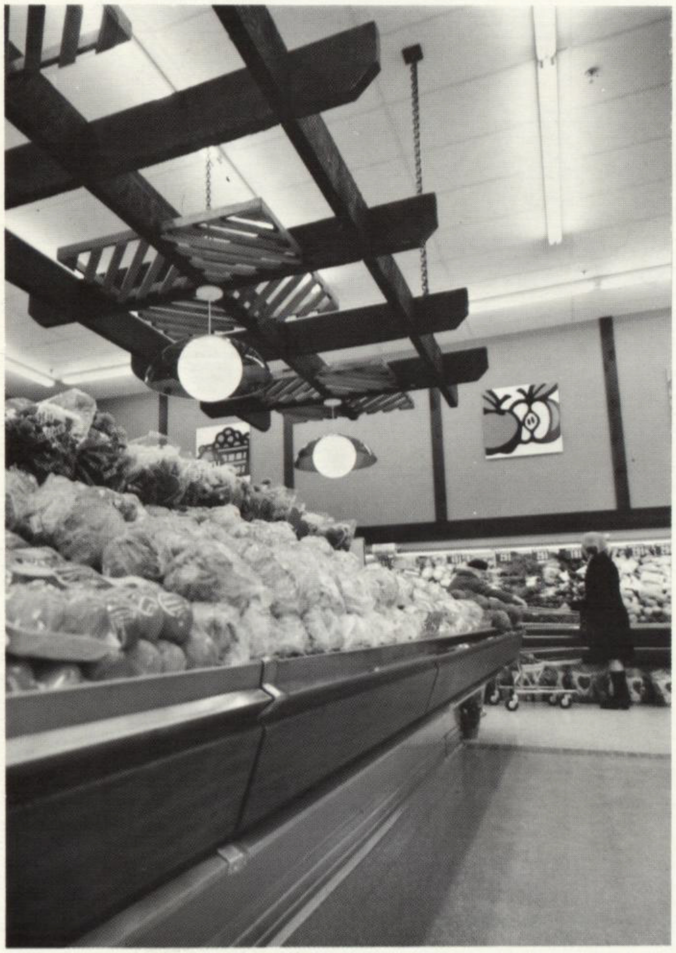
Take size. For families of one or two, there are more eight-ounce size cans, more individual-serving sizes of frozen foods. At the other end of the scale, how about pickles or salad dressing by the gallon? Or fruits and vegetables in the giant #10 size (25 servings) usually available only to restaurants and institutions?

Or brands. Instead of two, maybe four or more from which to choose. There's space now where there wasn't before.

You can even eat in a different part of the world every evening if you wish. In the international corner, there's a Kosher section. And Italian, Chinese or Mexican. . .

In the produce department, there are neatly-prepackaged carrots (or oranges or apples). But there also is a choice of loose produce, so that those shoppers who prefer to make their own selection may do so.

The variety of fresh fruits and vegetables is breathtaking. Tropical fruits in February? Bananas, yes, but also fresh pineapple, coconut, papaya, watermelon, strawberries. . .



Natural or "health" foods are of particular interest to young shoppers, who evaluate every purchase with a keen eye to health and ecology. Here are found such items as wheat germ, unbleached flour . . . or unusual-sounding favorites such as sunflower seed soup, sea-salted soybeans and safflower mayonnaise.

Throughout the entire Kroger store of the 1970's is evidence of the merchandising and manufacturing skills and resources of the various Kroger businesses, brought together to serve shoppers better.

For example, the familiar Kroger Brands. Quality comparable to the best-selling brands in the nation. Yet priced to save. Behind each stands Kroger's own strict standards of quality and value. A money-back guarantee tells customers Kroger means what it says.

Kroger today is one of the nation's most important food processors, with six modern dairies and eight bakeries, as well as processing plants producing eggs, candy, coffee, wieners and luncheon meats, and many other products which have become favorites of Kroger shoppers through the years.

New facilities opened during 1971 will help Kroger processing plants serve food stores even better. New bakery facilities were opened in Houston and Roanoke, making possible improved bakery service to these important areas.

Late in 1972, a new 180,000 square foot dairy will be opened in Indianapolis, which will be the largest combined milk, ice cream and frozen novelties plant in the world. Plans call for conversion of the present Indianapolis Dairy to a specialty bakery.

THE TOTAL FOOD STORE

Many significant developments are taking place in Kroger Food Stores. Expansion in the area of highly-profitable general merchandise is an important one — at once unusual and logical, an evolution rather than a revolution.

All the changes have the same goal that motivated Barney Kroger, founder of The Kroger Co., when he revolutionized the traditional grocery store concept back in 1904 by joining a meat market and a grocery store under one roof. *That* was the start of today's one-stop-shopping, with greater convenience and better service for customers.

Today, as this concept comes to maturity, as much as one-fifth of new or remodeled supermarkets will be devoted to such home-related items as housewares, hardware, hosiery, health and beauty aids, stationery, even infants' wear and toys. For a very good reason. The new consumer herself wants and needs the convenience of a *complete* supermarket which offers her family not only food but also other items which they use in connection with food and family living.

A pizza mix? She'd like to be able to buy the pan to bake it in.

Pet food? She doesn't have to make a separate trip to buy flea powder or kitty litter (and 40,000,000 U. S. households own cats or dogs).

Planning a party? Pick up invitations, cocktail napkins, plates, candles, glasses, gift wrap. Even a hammer and nails to hang the decorations which she'll also find there.

Children in the family? How about a baby blanket, a pair of smile-printed sneakers, or an educational game that teaches the youngster to tell time?

It's the 1970's version of one-stop-shopping, keyed to the needs of the consumer and her family, and just as natural a part of a modern supermarket as apples and sirloin steak.

Particularly valuable in the development and implementation of this expanded concept is the experience in general merchandise gained through the company's Family Center operation.

Our shopper completes her weekly visit to her Kroger Food Store. She moves to the check-lane, the wheels of her bascart clickety-clacking along with nine million others each week. Behind each bascart, a shopper. All ages, all sizes, all important.

It's a new world for Kroger Food Stores in the 1970's. Soft and strident. Busy and beautiful. Steady and exciting. Tuned to the times. Reflecting the new consumer. Ready for the future.

(Store photographs were taken in the 30,975 square foot Kroger Food Store at Barberton, Ohio, which opened January 30, 1972.)

The Men Who Run Our Supermarkets

It takes a broad range of background and experience in the supermarket business to fill the job of Division Vice President. The men pictured here, who actually run the 1431 supermarkets which are the heart of our business, fulfill a vital and essential role in the success of the total company.

N. A. (Mike) Sawall
Detroit Division

Vice president since 1966. Thirty-year veteran in food business, starting as stock boy. Has been buyer, zone manager, manager of operations.

Bill G. Beaty
Charleston Division

Vice president since 1969. Began as clerk, 1949. Has served as grocery buyer, zone manager and manager of operations.

Eugene W. Griner
Indianapolis Division

Vice president since 1967. Former college professor, began as personnel manager in 1953. Has served as zone and division manager.

Richard D. Schill
Dallas Division

Named vice president January, 1972. Began as part-time clerk in high school, 1949. Came up through stores to zone and operations manager.

Newton W. Briggs
Cleveland Division

Vice president since 1969. Joined Kroger, 1966, as division manager of operations after several years in the food business.

Stanley E. Hungerford
Memphis Division

Vice president since 1958. Veteran of 39 years with Kroger, starting as store clerk in 1933. Was produce merchandiser and operations manager.

Edwin A. Sieveking
Toledo Division

Vice president since 1971. Began as trainee, 1956. Was manager of operations; later in charge of produce merchandising for company.

David A. Burt
Grand Rapids Division

Vice president since 1969. Came up through stores after starting as meat cutter in 1952. Has been merchandise manager and manager of operations.

Richard M. Koster
Los Angeles Division

Vice president since 1966. Up through stores, starting as trainee, 1949. Division advertising, operations and merchandising posts.

C. B. (Peck) Stern
Nashville Division

Vice president since 1961. Has been with Kroger 35 years, starting as office clerk. Was grocery merchandiser and manager of operations.

Ronald G. Daugherty
Fort Wayne Division

Vice president since 1969. Hired as store manager trainee from college, 1950. Served as zone manager, meat and grocery merchandiser.

James A. LeRoy
Louisville Division

Vice president since 1964. Hired from college, 1949, as store manager trainee. Also in division advertising, operations, merchandising.

Harold P. Templeton
Columbus Division

Vice president since 1956. Began in 1949 as trainee after several years in agricultural and chain store association work.

Walter R. Dryden
Cincinnati-Dayton Division

Vice president since 1966. Began as store manager trainee, 1952. Has served as zone manager and manager of operations.

Stewart W. Long
Little Rock Division

Vice president since 1969. In charge of company's produce merchandising before moving to Little Rock. Began as meat cutter, 1946.

Charles L. Thomas, Jr.
Atlanta Division

Vice president since 1968. Joined Kroger as trainee after college, 1950. Headed grocery merchandising for company; also in manufacturing.

Robert G. Everingham
Houston Division

Vice president since 1971. After starting as clerk in 1946, came up through operations and merchandising posts.

John W. Marsh
Pittsburgh Division

Vice president since 1967. Began as trainee in 1954. Has served as zone manager and produce merchandiser.

Adrian L. Vannice
Kansas City Division

Vice president since 1971. Part-time meat clerk while still in college, 1954. Was division merchandiser and zone manager.

John W. Firth
Roanoke Division

Vice president since 1966. Started as assistant buyer in 1946. Was grocery merchandiser in three divisions.

R. John McClelland
Peoria Division

Vice president since 1971. Started as store clerk in 1946, served as store and zone manager and as manager of operations.

Charles W. White
St. Louis Division

Vice president since 1964. Rose through stores, starting as clerk in 1943. Served as both manager of operations and merchandise manager.

Financial Review

SALES AND EARNINGS

Consolidated net sales for the 52 weeks ended January 1, 1972 were $3,708 million, a decrease of 0.7% from the $3,736 million for the 53 weeks ended January 2, 1971. There were 1,431 supermarkets in operation at year end, 91 fewer than a year earlier.

Consolidated net earnings before extraordinary loss amounted to $36.3 million, a decrease of 8.8% from net earnings of $39.8 million in 1970. This amounted to $2.71 per common share before extraordinary loss, down from $3.00 in 1970. The extraordinary loss, $4.1 million or 30¢ per common share, resulted from a provision for estimated losses arising from discontinuance of the Wisconsin operations in the second quarter of 1971. Consolidated net earnings after extraordinary item was $32.2 million, or $2.41 per common share, in 1971.

Sales and earnings results for supermarkets and drug stores are shown in the following table:

Sales

	SUPERMARKETS $ in Millions	% of Total	DRUG STORES $ in Millions	% of Total	Total
1971...	$3,413	92.0%	$ 295	8.0%	$3,708
1970...	3,459	92.6	277	7.4	3,736
1969...	3,232	93.0	245	7.0	3,477
1968...	2,942	93.1	219	6.9	3,161
1967...	2,618	93.3	188	6.7	2,806

Earnings(a)

	SUPERMARKETS $ in Millions	% of Total	DRUG STORES $ in Millions	% of Total	Total
1971...	$ 59.4	85.9%	$ 9.7	14.1%	$ 69.1
1970...	72.6	83.2	14.6	16.8	87.2
1969...	67.8	84.3	12.6	15.7	80.4
1968...	61.5	87.6	8.7	12.4	70.2
1967...	45.8	93.0	3.4	7.0	49.2

(a) Before LIFO adjustment, taxes based on income and extraordinary items.

Investment tax credits amounted to 12¢ per share, of which 10¢ resulted from the reinstatement of the investment tax credit by The Revenue Act of 1971. Investment tax credits were 5¢ per share in 1970.

Equity in net earnings of unconsolidated companies was $2.6 million or 19¢ per share, up slightly from $2.5 million in the prior year. The major part of this came from Top Value Enterprises, Inc.

Kroger is one of the few large food chains using the LIFO (last-in, first-out) method of inventory valuation. This accounting method eliminates the effect of price inflation in inventories and results in a non-cash charge against earnings. In 1971, LIFO charges were 11¢ per share as compared with 29¢ per share in 1970 reflecting in part the effect of the Company's decision to discontinue its practice of using the LIFO method to value portions of its drug store inventories. This decision resulted in reduced 1971 charges of 9¢ per share. At the end of 1971, the LIFO inventory reserve amounted to $48.5 million, with an associated federal income tax savings of $25.2 million.

DIVIDENDS

Dividends of $1.30 per common share were paid in 1971, which marked the 70th consecutive year in which dividends have been paid out of current earnings. The regular quarterly dividend of 32½¢ per share was paid March 1, 1972 to shareowners of record Febuary 4, 1972.

CAPITAL EXPENDITURES

Capital expenditures for 1971 totaled $47.1 million. Major categories were:

	1971 $ in Millions	1971 % of Total	1970 $ in Millions	1970 % of Total
Stores and related equipment	$28.6	61%	$45.8	51%
Distribution Centers, equipment and vehicles	6.2	13	27.1	31
Food Processing facilities and equipment	11.8	25	15.4	17
Miscellaneous	.5	1	1.0	1
Totals	$47.1	100%	$89.3	100%

During the past two years, emphasis has been placed on expenditures directly relating to retail outlets. This emphasis will continue in the capital expenditure programs for 1972.

SALE-LEASEBACK TRANSACTION

During the year, the Company entered into an agreement for the sale and subsequent leaseback of several distribution and food processing facilities of the St. Louis, Nashville, Detroit and Roanoke divisions. The total proceeds from this transaction will be $15 million, of which $13 million was received in December, 1971. The balance will be received in March, 1972. Additional sale-leaseback transactions are possible during 1972.

CONSOLIDATED BALANCE SHEET

ASSETS	JAN. 1, 1972	JAN. 2, 1971
CURRENT ASSETS		
Cash	$ 47,276,753	$ 54,505,691
Short-term investments	11,982,495	
Receivables	44,192,317	54,166,209
Inventories	271,918,122	262,597,515
Store and general supplies	3,468,120	3,730,788
Prepaid and miscellaneous assets	15,714,058	15,920,182
Total current assets	$394,551,865	$390,920,385
PROPERTY, PLANT AND EQUIPMENT		
Land	$ 17,951,202	$ 20,504,836
Buildings	73,364,514	82,665,682
Equipment	349,487,893	348,051,154
Leaseholds and leasehold improvements	98,510,108	102,933,403
	$539,313,717	$554,155,075
Allowance for depreciation and amortization	221,516,182	217,580,646
Property, plant and equipment, net	$317,797,535	$336,574,429
INVESTMENTS AND OTHER ASSETS		
Investments in and advances to unconsolidated companies	$ 22,200,091	$ 19,861,317
Other investments, at cost, and other assets	7,817,826	6,685,827
Excess of cost of investments in consolidated subsidiaries over equities in net assets	14,050,648	14,050,648
Total investments and other assets	$ 44,068,565	$ 40,597,792
Total Assets	$756,417,965	$768,092,606

LIABILITIES

	JAN. 1, 1972	JAN. 2, 1971
CURRENT LIABILITIES		
Current portion of long-term debt	**$ 1,708,000**	$ 8,658,969
Accounts payable	**159,127,338**	179,545,191
Accrued expenses	**76,980,629**	74,566,336
Accrued federal taxes	**12,794,711**	19,880,306
Total current liabilities	**$250,610,678**	$282,650,802
OTHER LIABILITIES		
Long-term debt	**$ 92,000,000**	$ 93,823,437
Deferred federal income taxes	**20,875,000**	18,028,400
Employees' benefit fund	**41,041,476**	40,822,485
Total other liabilities	**$153,916,476**	$152,674,322
Total Liabilities	**$404,527,154**	$435,325,124

SHAREOWNERS' EQUITY

Common capital stock, par $1		
Authorized: 18,000,000 shares		
Issued: 1971 — 13,722,402; 1970 — 13,561,184	**$ 88,104,346**	$ 83,824,520
Accumulated earnings	**273,635,341**	258,791,838
	$361,739,687	$342,616,358
Common stock in treasury, at cost — 286,772 shares	**9,848,876**	9,848,876
Total Shareowners' Equity	**$351,890,811**	$332,767,482
Total Liabilities and Shareowners' Equity	**$756,417,965**	$768,092,606

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF EARNINGS

Years Ended January 1, 1972 and January 2, 1971	**1971 (52 Weeks)**	1970 (53 Weeks)
Income:		
Sales	**$3,707,918,052**	$3,735,774,014
Equity in net earnings of unconsolidated companies	**2,584,871**	2,518,246
Total	**$3,710,502,923**	$3,738,292,260
Costs and Expenses:		
Merchandise costs including warehousing and transportation	**$2,920,964,393**	$2,959,176,199
Operating, general and administrative expenses	**619,310,855**	599,809,605
Rent	**56,441,502**	55,072,706
Depreciation and amortization	**37,671,690**	35,719,830
Interest on long-term debt	**7,927,217**	5,673,537
Other interest expense	**1,900,321**	3,786,971
Taxes based on income	**30,017,865**	39,284,499
Total	**$3,674,233,843**	$3,698,523,347
Earnings before extraordinary loss	**$ 36,269,080**	$ 39,768,913
Extraordinary loss, net of tax benefits	**4,056,000**	
Net Earnings	**$ 32,213,080**	$ 39,768,913
Average number of shares of common stock outstanding	**13,392,141**	13,258,422
Per share of common stock:		
Earnings before extraordinary loss	**$ 2.71**	$ 3.00
Extraordinary loss	**.30**	
Net earnings	**$ 2.41**	$ 3.00

CONSOLIDATED STATEMENT OF ACCUMULATED EARNINGS

Years Ended January 1, 1972 and January 2, 1971	**1971**	1970
Accumulated earnings — Beginning of the year	**$ 258,791,838**	$ 236,215,007
Net earnings for the year	**32,213,080**	39,768,913
	$ 291,004,918	$ 275,983,920
Dividends on common stock — $1.30 per share	**17,369,577**	17,192,082
Accumulated earnings — End of the year	**$ 273,635,341**	$ 258,791,838

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF FUNDS

Years Ended January 1, 1972 and January 2, 1971	**1971 (52 Weeks)**	1970 (53 Weeks)
SOURCES		
From operations:		
Earnings before extraordinary loss	**$ 36,269,080**	$ 39,768,913
Charges (credits) to earnings — not requiring funds:		
Depreciation and amortization	**37,671,690**	35,719,830
Provision for employees' benefit fund, net of payments	**218,991**	192,760
Provision for deferred federal income taxes	**2,846,600**	1,758,058
Equity in net earnings of unconsolidated companies	**(2,584,871)**	(2,518,246)
Total sources from operations before extraordinary loss	**$ 74,421,490**	$ 74,921,315
Extraordinary loss	**(4,056,000)**	
Total sources from operations	**$ 70,365,490**	$ 74,921,315
Capital stock issued under option plans	**4,279,826**	611,880
Additions to long-term debt		76,123,406
Sale of capital assets subsequently leased back	**15,000,000**	16,000,000
Net book value of capital asset disposals	**12,796,869**	8,325,557
Total sources	**$ 102,442,185**	$ 175,982,158
USES		
Capital expenditures	**$ 47,105,269**	$ 89,325,600
Dividends paid	**17,369,577**	17,192,082
Reductions of long-term debt	**1,823,437**	8,658,969
Notes received related to capital asset disposals	**986,610**	6,129,276
Other changes — net	**(514,312)**	2,724,892
Total uses	**$ 66,770,581**	$ 124,030,819
Net increase in working capital	**$ 35,671,604**	$ 51,951,339

ANALYSIS OF WORKING CAPITAL CHANGES

	Increase (Decrease)	
Current asset changes:		
Cash and short-term investments	**$ 4,753,557**	$ 24,943,106
Inventories	**9,320,607**	(9,291,724)
Other current assets	**(10,442,684)**	19,189,601
Net increase in current assets	**$ 3,631,480**	$ 34,840,983
Current liability changes:		
Notes payable and current portion of long-term debt	**$(6,950,969)**	$(29,672,031)
Accounts payable	**(20,417,853)**	4,489,401
Accrued expenses and taxes	**(4,671,302)**	8,072,274
Net decrease in current liabilities	**$(32,040,124)**	$(17,110,356)
Net increase in working capital	**$ 35,671,604**	$ 51,951,339

The accompanying notes are an integral part of the financial statements.

Notes to Consolidated Financial Statements

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the Company and all of its domestic subsidiaries except Top Value Enterprises, Inc. and two other subsidiaries which are included in the earnings statement on the equity basis.

In accordance with the provisions of an Accounting Principles Board opinion issued in 1971, the Company has adopted the policy of accounting for its equity in the net earnings of a controlled company in the earnings statement. As a result of this change, net earnings for 1971 and 1970, as restated, were increased $97,396 and $36,469, respectively. The balance of accumulated earnings at the beginning of 1970 was increased by $279,451, representing the accumulated undistributed earnings at that date.

The Company's equity in the net earnings of unconsolidated domestic subsidiaries and controlled companies is included for the preceding fiscal year for those companies not on a calendar year closing.

Investments in and advances to unconsolidated companies at January 1, 1972 included:

Domestic subsidiaries and controlled companies, at cost plus share of undistributed earnings since acquisition	$22,040,924
Foreign subsidiaries, at cost	159,167
	$22,200,091

The excess of cost of investments in consolidated subsidiaries over equities in net assets at dates of acquisition is not being amortized because, in the opinion of management, there has been no decrease in value.

Certain amounts in the financial statements for 1970 have been reclassified to conform to the 1971 presentation.

INVENTORIES

The inventories are valued at cost or market, whichever is lower. Cost for approximately 64 percent of these inventories at January 1, 1972 and 74 percent at January 2, 1971 is determined on the LIFO (last-in, first-out) method. LIFO inventories at January 1, 1972 and January 2, 1971 were approximately $48,476,000 and $45,634,000, respectively, less than the amounts of such inventories priced on the first-in, first-out basis. The methods of determining cost for the balance of inventories are retail and first-in, first-out.

During 1971, the LIFO method of valuing drug store inventories was discontinued. This change increased 1971 net earnings by 9¢ per share. If this change had been retroactively applied, reported net earnings for preceding years would not have been materially affected.

EXTRAORDINARY LOSS

During the second quarter of 1971, the Wisconsin operations were discontinued. The loss in the amount of $4,056,000 after deducting tax benefits of $3,744,000 includes known and anticipated costs relating to the liquidation of assets and termination of the operations.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost. Depreciation and amortization is computed principally on the straight-line basis.

LEASES

The Company operates principally in leased premises. Lease terms generally range from ten to twenty-five years with options of renewal for additional periods. Options provide in some cases for renewals at reduced rentals and/or the right to purchase. Aggregate minimum annual rentals at January 1, 1972 were approximately $56,136,000 of which $38,844,000 related to leases expiring subsequent to 1976. Aggregate minimum annual rentals for lease commitments relating to stores to be opened, amounted to approximately $5,997,000.

LONG-TERM DEBT

Long-term debt at January 1, 1972 included:

5¼% notes, 70% maturing in 1978, and 30% maturing in 1979; with annual prepayments of $500,000	$ 6,150,000
5.3% notes maturing in 1981; with annual prepayments of $750,000	10,500,000
5½% notes maturing in 1977; with annual prepayments of $140,000 to November 1, 1973 and $160,000 thereafter	940,000
8⅞% notes maturing in 1975	25,000,000
9% sinking fund debentures maturing in 1995; with annual prepayments of $2,500,000 commencing in 1976	50,000,000
5½% notes (assumed in connection with acquisitions); balance due annually in varying amounts through 1980	1,118,000
	93,708,000
Less amount due within one year	1,708,000
	$92,000,000

Under certain of the loan agreements, payments of cash dividends are limited. Under the most limiting agreement, accumulated earnings were unrestricted in the amount of $92,312,040 at January 1, 1972.

PREFERRED STOCK

The Company has authorized 750,000 shares of voting cumulative preferred stock. The stock has a par value of $50 per share and is issuable in series. None is outstanding at January 1, 1972.

COMMON STOCK

Changes in common stock during the fiscal years 1970 and 1971 were as follows:

	Issued		Treasury	
	Shares	Amount	Shares	Amount
Balance, Dec. 28, 1969	13,538,476	$83,212,640	286,772	$9,848,876
Exercise of options	22,708	611,880		
Balance, Jan. 2, 1971	13,561,184	83,824,520	286,772	9,848,876
Exercise of options	161,218	4,279,826		
Balance, Jan. 1, 1972	13,722,402	$88,104,346	286,772	$9,848,876

STOCK OPTION PLANS

At January 1, 1972, options to purchase common stock of the Company were outstanding under the 1961, 1965 and 1969 Stock Option Plans. No further options may be granted under the 1961 Plan. At January 1, 1972, shares of common stock available for future options under the 1965 and 1969 Plans amounted to 43,150 shares and 32,700 shares, respectively.

At January 2, 1971, options to purchase 525,743 shares of common stock were outstanding. Option transactions during 1971 may be summarized as follows: granted 67,500 shares (at prices ranging from $27.75 to $37.19 per share); exercised 161,218 shares (at prices ranging from $20.81 to $37.50 per share); expired or canceled 24,290 shares. Options to purchase 407,735 shares (at prices ranging from $20.31 to $37.50 per share) were outstanding at January 1, 1972. Options for 205,195 shares were exercisable at January 1, 1972.

PENSION PLANS

The Company and certain of its subsidiaries have noncontributory retirement plans for eligible employees. Pension costs accrued each year are presently being funded for only one of these plans.

Over the past several years, a substantial number of participants in the unfunded plans have transferred to the funded plan and multi-employer plans. There are no vested benefits for the unfunded plan in excess of balance sheet accruals at January 1, 1972.

An improved vesting schedule for the funded plan was adopted during 1971. The actuarially computed value of vested benefits for the plan as of January 1, 1972 exceeded the total of the pension fund by approximately $11,900,000. Past service costs are being amortized over forty years.

The Company also contributes to multi-employer plans jointly administered by management and union representatives. The total pension expense for all plans for 1971 and 1970 was $21,573,347 and $15,421,747, respectively.

TAXES BASED ON INCOME

The provision for taxes based on income included:

	1971	1970
Federal		
Currently payable	$21,462,400	$32,838,942
Deferred	2,846,600	1,758,058
	24,309,000	34,597,000
State and Local	5,708,865	4,687,499
Total	$30,017,865	$39,284,499

Investment tax credits applied to reduce currently payable federal income taxes amounted to $1,317,000 in 1971 and $441,500 in 1970.

Deferred federal income taxes included the amount of tax applicable to the excess of accelerated depreciation allowances and the effect of guideline lives over the normal depreciation charged to income, net of the amount of tax credits applicable to the unfunded portion of employees' benefit fund expense which has been charged to income.

Report of Certified Public Accountants

To the Shareowners and
Board of Directors
The Kroger Co.

We have examined the consolidated balance sheet of The Kroger Co. and Consolidated Subsidiary Companies as of January 1, 1972, and the related consolidated statements of earnings, accumulated earnings and sources and uses of funds for the 52 weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the consolidated financial statements of The Kroger Co. and Consolidated Subsidiary Companies for the 53 weeks ended January 2, 1971.

In our opinion, the above referred to financial statements present fairly the consolidated financial position of The Kroger Co. and Consolidated Subsidiary Companies at January 1, 1972, and January 2, 1971, and the consolidated results of their operations and sources and uses of funds for the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Lybrand, Ross Bros. & Montgomery
38th Floor, Carew Tower
Cincinnati, Ohio 45202
February 18, 1972

Lybrand, Ross Bros. & Montgomery

FIVE YEAR SUMMARY

EARNINGS STATISTICS *(thousands of dollars, except per share figures)*	**1971**	1970(b)	1969	1968	1967
Sales	**$3,707,918**	3,735,774	3,477,164	3,160,838	2,806,074
Net Earnings	**$ 36,269(a)**	39,769	37,336(c)	33,857	25,814
Dividends	**$ 17,370**	17,192	17,034	17,091	17,170
Per Share					
Net Earnings Before Effect of LIFO	**$ 2.82(a)**	3.29	3.12(c)	2.79	2.04
Net Earnings	**$ 2.71(a)**	3.00	2.84(c)	2.63	1.99
Dividends	**$ 1.30**	1.30	1.30	1.30	1.30
BALANCE SHEET STATISTICS *(thousands of dollars, except per share figures)*					
Inventories	**$ 271,918**	262,598	271,889	233,177	205,120
Working Capital	**$ 143,941**	108,270	56,318	77,561	87,966
Property, Plant and Equipment, net	**$ 317,798**	336,574	305,254	260,962	237,920
Total Assets	**$ 756,418**	768,093	692,599	590,069	548,160
Long-Term Debt	**$ 93,708**	102,482	28,690	31,028	33,455
Shareowners' Equity	**$ 351,891**	332,767	309,579	282,064	269,134
Per Share of Common	**$ 26.19**	25.07	23.36	21.56	19.69
OTHER STATISTICS *(dollars and shares in thousands)*					
Depreciation and Amortization	**$ 37,672**	35,720	31,929	31,157	29,504
Capital Expenditures	**$ 47,105**	89,326	77,448	56,768	48,307
Common Shares Outstanding	**13,436**	13,274	13,252	13,082	12,497
Number of Shareowners	**42,182**	44,786	45,780	49,575	52,885
Number of Regular Employees	**52,073**	53,811	51,196	48,128	44,604
RETAIL FACILITIES *(areas in thousands of square feet)*					
Supermarkets					
Opened	**67**	99	58	58	67
Remodeled	**74**	85	112	107	101
Closed	**158**	94	41	46	77
Stores — End of Year	**1,431**	1,522	1,517	1,500	1,488
Total Area	**25,639**	26,457	25,917	25,194	24,534
Drug Stores					
Opened	**47**	53	37	41	66
Closed	**20**	3	3	3	2
Stores — End of Year	**458**	431	381	347	309
Total Area	**4,253**	3,946	3,482	3,172	2,855

(a) Represents earnings before extraordinary loss of $4,056,000 or $.30 per share arising from discontinuance of Wisconsin operations.
(b) Fifty-three weeks.
(c) Represents earnings before extraordinary gain of $1,342,120 or $.10 per share arising from sale of investment.

TRANSFER AGENTS

The First National Bank of Cincinnati
111 E. Fourth Street
Cincinnati, Ohio 45202

Bankers Trust Company
485 Lexington Avenue
New York, New York 10017

REGISTRARS

The Central Trust Company
Fourth and Vine Streets
Cincinnati, Ohio 45202

Chemical Bank
20 Pine Street
New York, New York 10015

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(KFS) Kroger Food Stores
(KB) Kroger Brands

The Kroger Co. 1971 annual report